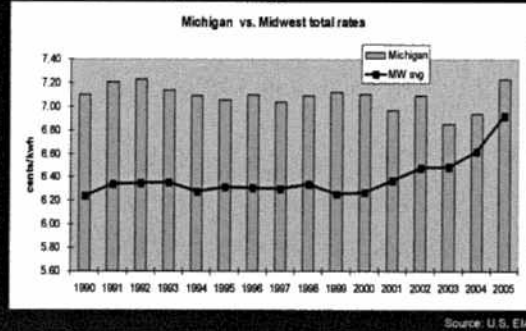


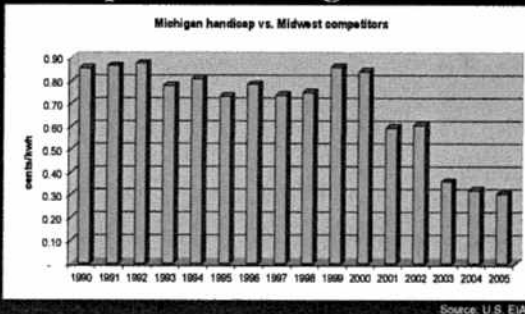


Using competition to combat
high electricity prices

A history of high electric rates



Competition cutting differential



Poor decisions have caused high rates

**FERMI 2:
CAN IT START PRODUCING POWER,
NOT PROBLEMS?**

Source: July 27, 1998
BARBARA STANTON For Press Staff Writer

It should have cost 10 times as much as the Westinghouse and taken longer to build than the "Pigeon" plant. Now \$2.7 billion over budget, it has become the "Pigeon" plant. It's a mess of problems and delays. A few days ago, the U.S. Nuclear Regulatory Commission (NRC) rejected a request to start up the plant. The NRC says the plant is not ready to start up. The NRC says the plant is not ready to start up.

FERMI'S FALL FROM REGULATORS' GRACE WAS SWIFT

Source: March 9, 1998
BARBARA STANTON For Press Staff Writer

When Westinghouse built the Fermi 2 plant, it was a success. But now, the plant is a failure. The NRC says the plant is not ready to start up. The NRC says the plant is not ready to start up.

SINKING EMPIRE'S CONSUMERS' MINDLAND PLANT

Source: April 11, 1998
BARBARA STANTON For Press Staff Writer

The Consumers' Mindland plant is a failure. The NRC says the plant is not ready to start up. The NRC says the plant is not ready to start up.

Under existing law, regulators were forced to bail out utilities at customer expense

- MPSC allowed some Fermi, Midland cost overruns to be passed onto customers
- Those cost overruns resulted in high electric rates for Michigan families and businesses
- We are still paying for those mistakes today
 - Securitization charge on all present and past Detroit Edison and Consumers customers
 - Midland Plant turned into gas plant, operating sporadically today

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Regulators are often required to change long term forecasts

"Low fuel costs and low emissions have made natural gas the preferred fuel for new electricity generation. In the latest Annual Energy Outlook, the U.S. Department of Energy projects that gas will fuel 88 percent of all new generation plants in the U.S. in the 1999-2020 period."

Gas-Fired Generation in Michigan: Assessment of Gas Infrastructure and Generation Costs

Michigan Public Service Commission
March, 1999

"Due to its price volatility, natural gas was not selected as a long term energy production fuel."

21st Century Energy Plan
MPSC Chairman Peter Lark
January 2007

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Regulators are often required to change long term forecasts

Capacity Needs Report, Jan. 2006

- Michigan future energy needs will grow at 2.1 percent/year for next 20 years.
- 15 percent reserve margin needed
- 6,000-7,000 megawatts needed by 2014 (equal to 12-14 500 mw plants)

Lark report, Jan. 2007

- Michigan future energy needs will grow at 1.2 percent for next 20 years.
- 12 percent reserve margin sufficient
- One baseload plant needed by 2015

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Lark report growth rates too high

- U.S. EIA Feb. 7, 2007 report: Midwest to see growth rate of just 1 percent
http://www.eia.doe.gov/out/ast/supplement/sup_elec.xls
- Detroit Edison forecaster: 2001-2005 saw an annual average increase of 0.2 percent
- Bottom line: We don't need to rush to build a new plant. We have plenty of time to assess how to meet the state's slow growing needs

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2000 Act concept: Markets to replace regulators

- Competition better than regulation at ensuring customers get maximum benefits, lowest price
- Has worked:
 - Airlines
 - Trucking
 - Telecommunications
 - Internet
 - 2006: Michigan Legislature encouraged competition in cable television

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2000 Acts: A compromise

- Utilities got:
 - Customer mandate to help utilities pay off high cost plants
 - DTE securitization bonds took \$1.75 billion off DTE books
 - Consumers securitization bonds took \$470 million off its books
 - All customers – even those who choose to buy electricity from other providers – forced to pay more than \$300 million/year through 2015.
- Customers got:
 - Opportunity to buy power from anyone they wanted
 - From existing utilities (Detroit Edison, Consumers)
 - From new independent suppliers in Michigan
 - From plants in other states (like Detroit Edison and Consumers do regularly)
- Non-Utility Power Producers got:
 - Opportunity to sell power to sell in competitive market directly to utilities and end use customers.

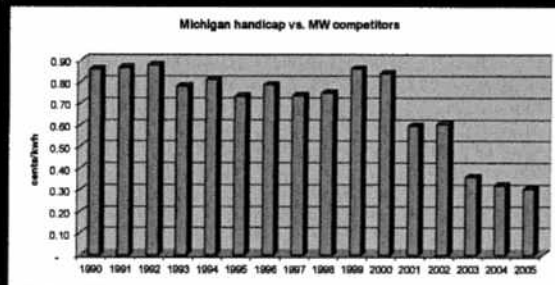
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2000 Acts: Benefits for all

- Utilities have benefited!
 - Electric revenues up!
 - Over \$120 million of stranded costs from Choice customers
 - Risk transferred onto the backs of Michigan customers
- Customers have benefited:
 - Immediate rate cuts of 5% for residential customers to 2005; commercial freezes through 2004; industrial through 2003
 - Savings from freezes and competition: Over \$493 million!
 - New companies moved into the state, built major generating plants that increased reliability
 - Competition has helped hold down rates
- Non-Utility Power Producers Benefited:
 - Access to competitive market

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Competition cutting differential



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Competition works!

| Before 2000 | Since 2000 |
|--|--|
| Monopolies refused to build plants, hurting reliability, creating brownouts. | Independents have built 4,600 MW of generation. Reliability improved, fewer brownouts. |
| Michigan customers paid \$0.84/kwh more than regional avg. | Regional differential now down to just \$0.31/kwh more. |
| Utilities refused to build transmission to make power flow more reliable. | Transmission has been built, more under way, increasing reliability. |

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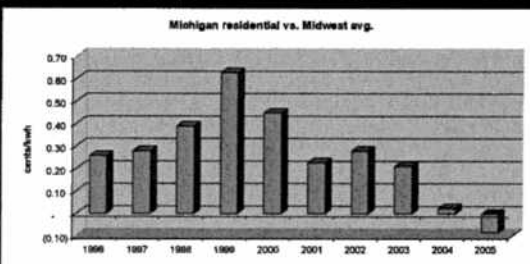
Who has benefited?

- Schools, universities, local governments: Have saved tens of millions. Major help in offsetting state budget cuts
- Grocery, convenience, pharmacy, retailers
- Hospitals
- Smaller industrial customers
- Service Stations, Auto Dealers

ALL are Customer Choice Coalition members!

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2005: For first time Michigan families pay less than Midwest avg.



Source: U.S. EIA

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Myth vs. Fact

- *Competition succeeded only because retail rates are skewed*
 - Most choice customer classes pay subsidies to utilities that are equal to or greater than skewing
- *Loss of choice customers caused utility rates to increase*
 - Reduced power purchases offset rate increases
- *Residential customers never benefit from electric choice*
 - CCC supports legislation to remove current impediments to residential competition

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Ongoing barriers to competition

- MPSC has imposed high government-mandated costs on those who leave Detroit Edison, Consumers
 - Customers must give months notice before leaving, must stay on Choice 2 years and give up to 10 months notice of return
 - School children have more choice than electric customers in Michigan!
 - Existing utility tariffs discourage residential customer participation.

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Utilities' Demands for Changes

- DTE's benefits from 2000 Acts undeniable
 - Shifted billions of risk from its books to Michigan families and businesses
- Now DTE wants to renege on benefits to customers – gives Michigan an ultimatum

Early said Michigan would have to change its regulatory environment, modifying or eliminating the "Customer Choice" program that allows customers to buy electricity from competing companies. "You need assurance that if you're going to enter into a decade-long process, you will have the customers to pay for the plant," he said. "If we don't get that assurance, we'll stop what we're doing."

Michigan's Changing Future
July 11, 2007

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Utilities' Demands for Changes

Utilities say Wall Street won't finance new plant without end to customer choice

BUT:

- TXU, Constellation, others are planning to build or buy plants in choice states
- Consumers and DTE financing hundreds of millions of new plant expense already!
 - DTE announced is spending more than \$1 billion on pollution prevention
 - Consumers announced it is spending \$700 million on pollution prevention
 - If Wall Street will finance pollution, other upgrades, it will finance new plant – if it's needed and if DTE can be competitive
- CMS just paid \$80 million to shareholders to settle round-trip trading lawsuits, paying \$80 million for Bay Harbor cleanup

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DTE's Demands for Changes

Utilities say Wall Street won't finance new plant without end to customer choice

BUT:

- Independents built \$2 billion of plants in Michigan 2000-2004.
 - With no guarantees of profits or customers
 - Saved ratepayers \$360 million to \$400 million
 - These are plants that Consumers and DTE refused to build
- Entergy able to finance purchase of Palisades plant from Consumers Energy.
- MPSC has addressed DTE revenue uncertainty associated with choice by letting rates increase if customers leave. *2006 MPSC Report on Competition.*

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Utilities demand changes to law

Utilities say Wall Street won't finance new plant
without end to customer choice

The Facts

- Investors are paying for new plants around the nation without profit guarantees.
- Investors are paying now to upgrade DTE and Consumers existing plants.
- Changing the law will make life easier for DTE and Consumers – but will mean higher prices and less reliability for customers.
- Changing the law will mean no outside company will return to Michigan to build another plant at investor's risk.
- Michigan ratepayers – not shareholders – will take all risk for cost overruns and management mistakes. Shareholder profits will be guaranteed!

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The Lark Plan

- 21st Century Energy Plan supported by Lark, two utilities
- “Majority report” supported by customers, independent power producers, environmentalists was ignored

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The Lark Plan

- Effectively kills choice
 - Two years “return to service” won’t work
 - You must make decision now for next 20 years – or pay government-mandated subsidy to utility that builds new plant if you leave after it starts
 - Customers pay over \$300 million/year of stranded costs through 2015 but don’t get Choice
- No real competition for building a power plant
 - Only utility gets to own and operate the plant
 - Even if someone proposes cheaper alternative, can’t get special treatment reserved for Detroit Edison, Consumers

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The Lark Plan

- Gives government regulators power to determine Michigan’s future
 - Once regulators decide plant needed, utility can start charging customers – even if the plant never opens
 - Consumers Midland Nuclear Plant might still be under construction!
 - Independent power plants can’t get this special subsidy
- No off ramp if Lark Plan doesn’t work
 - Lark Plan excludes competitors who built 20% of Michigan’s existing generating capacity
 - Competitors can’t supply customers even if utilities don’t perform

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Today's Reality in Michigan

- Competition has helped in Michigan.
- We need more competition, not less competitive prices if we want to keep the businesses here viable and attract any new jobs to Michigan.
- Redesigned utility tariffs would allow residential customers to participate in Choice.
- Remonopolizing Michigan will benefit just two companies and hurt thousands of others.

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The CCC plan

- Encourage level playing field bidding among all who can meet Michigan's energy needs
 - Demand management
 - Independent power producers
 - Renewables
 - Plants outside of Michigan
 - AND DTE and Consumers

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The CCC plan

- No paying for plants during construction
- No requirement that people not taking power from a company have to pay for it
- Streamline process to make it easier for residential choice
- Use the power of competition and markets to hold down costs and increase reliability. It's working in Michigan today

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DTE flip flops

"The restructuring law and major changes in the way we do business represent enormous challenges for Detroit Edison, but we embrace competition because it enables our business to grow and excel. Our goal is to be so good at what we do that customers will choose to stick with us."

— Tony Parley July 19, 2000 Detroit Free Press

It was true then...it is true today

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